

Message Text

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ACTION EUR-12

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AMEMBASSY ROME
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C O N F I D E N T I A L MOSCOW 3408

E.O. 11652: GDS
TAGS: EIND, EFIN, EEWT, UR, IT, GW, JA, FR, UK
SUBJECT: WESTERN CREDIT TO USSR

1. MARCH 10 SESSION OF WESTERN COMMERCIAL COUNSELORS
(MINUS FRANCE AND JAPAN) DISCUSSED SOVIET FOREIGN CURRENCY
SITUATION AT BEHEST OF "DEAN" OF GROUP, ITALIAN EMBASSY
COUNSELOR TOSCANO.

2. ASKED TO COMMENT ON CURENT STATUS OF ITALIAN LINE-
OF-CREDIT OFFER TO USSR, TOSCANO SAID THAT USSR HAD STARTED
OFF ASKING ONE BILLION DOLLARS AND CAME DOWN PROGRESSIVELY
TO \$800, \$700 AND \$650 MILLION. ITALIANS ARE OFFERING
\$250 MILLION (AS NOTED IN PREVIOUS REPORTS ON THE SUBJECT)
WITH CREDIT TO BE GIVEN FOR EIGHT AND ONE-HALF YEARS WITH
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FIRST DELIVERY BEING STARTING POINT FOR REPAYMENT IN 17
SEMI-ANNUAL INSTALLMENTS. ITALIANS ASKING 7.95 PERCENT
INTEREST RATE, INCLUDING 0.20 PERCENT CREDIT INSURANCE
CHARGE, BUT THEY ARE WILLING TO GIVE UP THE LATTER AND
PAY IT THEMSELVES.

3. TOSCANO ALSO STATED THAT THE JAPANESE EXPORT-IMPORT

BANK IS "CONSIDERING" A CREDIT TO THE USSR OF \$80 MILLION WITH PART OF CREDIT TO BE AT 7.75 PERCENT AND REMAINDER AT 7.25 PERCENT. HE DID NOT PROVIDE A FURTHER BREAKDOWN OF THIS PUTATIVE LOWER FIGURE, WHICH HE THOUGHT WOULD INCREASE PRESSURE ON ITALIANS.

4. ECONOMICS MINISTER IN GERMANY EMBASSY STATED THAT GERMAN BANKS GET AN EFFECTIVE INTEREST RATE OF 9.0 PERCENT-9.5 PERCENT ON GERMAN EXPORTS TO USSR THROUGH MARKUPS IN THE SALE PRICE OF MERCHANDISE. IT WAS THE FAILURE OF BERLIN CONSULT TO DO THIS IN THE CASE OF THE PROSPECTIVE MOSCOW AIRPORT TERMINAL CONTRACT THAT LED IT INTO TROUBLE; THE PRICE DIFFERENTIAL IN THE BIDDING BETWEEN BERLIN CONSULT AND A FRENCH COMPETITOR WAS THAT THE LATTER'S UNSUCCESSFUL BID INCLUDED THE INTEREST DIFFERENTIAL. BERLIN CONSULT WON THE CONTRACT BUT A PRICE ALLOWING NO PROFIT AND NO FLEXIBILITY TO COMPENSATE BANKS. MINISTER ADDED THAT BERLIN CONSULT SITUATION HAS BECOME AN EMBARRASSMENT TO FRG, SINCE A STATE-OWNED WEST GERMAN FIRM IS NOW IN THE PICTURE AS A POTENTIAL RIVAL.

5. GERMAN MINISTER SAID HE UNDERSTOOD FRENCH ARE NOT TOO HAPPY ABOUT "GENTELMAN'S AGREEMENT" WITH THE USSR EARLIER THIS YEAR, BECAUSE IT COULD LEAD TO FURTHER SUBSIDIZED FRENCH CREDITS TO THE USSR.

6. AFTER TOSCANO CITED HIS PERSONAL ROLE IN GETTING LAST (EXHAUSTED) ITALIAN CREDIT DENOMINATED IN DOLLARS INSTEAD OF LIRE, THEREBY AVOIDING CURRENCY DEVALUATION RISK, CONFIDENTIAL

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OTHER WESTERN REPRESENTATIVES INQUIRED IF SOVIETS HAD NOT SOUGHT TO PREVENT THIS BY INTRODUCING ELEMENT OF NATIONAL PRIDE. FRENCH LINE IS STILL DENOMINATED IN FRANCS, IT WAS NOTED. AFTER UK REP STATED THAT BRITISH LINE IS IN POUNDS STERLING, IT WAS POINTED OUT THAT RISK OF DEVALUATION COULD BE MORE SERIOUS SHOULD SOVIETS EVER DECIDE TO MAKE SUBSTANTIAL USE OF BRITISH CREDIT.

7. DURING DISCUSSION OF 1976 ITALO-SOVIET TRADE FIGURES, WHICH SHOWED USSR RUNNING POSTIVE BILATERAL BALANCE, GERMAN ECONOMICS MINISTER COMMENTED THAT SOVIETS HAD CLEARLY BEEN OBLIGED TO CUT BACK PLANNED ACQUISITION OF WESTERN TECHNOLOGY IN SECOND HALF OF 1976. TOSCANO COMMENTED FLATLY, "THEY DON'T HAVE A DOLLAR." GERMAN THEN WENT ON TO SAY THAT IMPORTED WESTERN TECHNOLOGY STANDS LIKE AN ISLAND IN THE USSR, A COMMENT WHICH TOSCANO ENDORSED WITH THE STATEMENT THAT THERE IS NO SPILL-OFF FROM THESE IMPORTS.

8. COMMENT: WE HAVE NOT HAD A CHANCE TO ASK JAPANESE
ABOUT THE RATHER UNSUBSTANTIATED REPORT OF A 7-1/4
PERCENT INTEREST RATE. WE ASSUME ITALIANS MAY HAVE
RECEIVED THIS FIGURE FROM SOVIETS AS A TECHNIQUE FOR
WEAKENING ITALIAN RESOLVE. THS JAPENESE DO NOT
PARTICIPATE IN THESE MEETINGS OF COMMERCIAL COUNSELORS
DESPITE INVITATION TO DO SO.
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